



CITY OF EDMONT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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CITY OF EDMONTON

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
<i>Government-wide Financial Statements:</i>	
Statement of Net Position – Modified Cash Basis.	3
Statement of Activities – Modified Cash Basis.	4
<i>Fund Financial Statements</i>	
Governmental Funds Balance Sheet – Modified Cash Basis	5
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	6-7
Proprietary Fund Balance Sheet – Modified Cash Basis.	8
Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position - Modified Cash Basis	9
Notes to Financial Statements – Modified Cash Basis.	10-18
<i>Other Reports:</i>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Schedule of Findings	21-24



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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Edgemont
Edgemont, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF EDMONT** (the City), Fall River County, South Dakota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position-modified cash basis, thereof and for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 17, 2014

CITY OF EDMONTON

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2012**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS:			
Cash and Investments	\$ 419,618	\$ 345,499	\$ 765,117
Restricted Assets:			
Cash and Cash Equivalents	6,716	-	6,716
TOTAL ASSETS	\$ 426,334	\$ 345,499	\$ 771,833
NET POSITION:			
Restricted for:			
Non-expendable - Cemetery Perpetual Care	\$ 100	\$ -	\$ 100
Library Trust Fund	6,183	-	6,183
Liquor, Lodging, and Dining	15,894	-	15,894
Revolving Loan	56,650	-	56,650
Unrestricted	347,507	345,499	693,006
TOTAL NET POSITION	\$ 426,334	\$ 345,499	\$ 771,833

The accompanying notes are an integral part of this statement.

CITY OF EDMONTON

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	----- Program- -----			----- Net (Expense) Revenue and -----		
		Charges for	Revenue	Capital	Governmental	Business-Type	Total
		Services	Operating	Grants and	Activities	Activities	
			Contributions	Contributions			
Primary Government:							
Governmental Activities:							
General Government	\$ 118,705	\$ 50,970	\$ -	\$ -	\$ (67,735)	\$ -	\$ (67,735)
Public Safety	153,556	248	-	-	(153,308)	-	(153,308)
Public Works	229,617	5,866	39,497	96,407	(87,847)	-	(87,847)
Health and Welfare	87,178	142	-	-	(87,036)	-	(87,036)
Culture and Recreation	113,781	-	-	-	(113,781)	-	(113,781)
Conservation and Development	23,500	-	-	-	(23,500)	-	(23,500)
Debt Service	2,054	-	-	-	(2,054)	-	(2,054)
Total Governmental Activities	728,391	57,226	39,497	96,407	(535,261)	-	(535,261)
Business-Type Activity:							
Water	212,402	216,278	-	-	-	3,876	3,876
Sewer	196,860	110,415	-	-	-	(86,445)	(86,445)
Solid Waste	89,581	97,106	-	-	-	7,525	7,525
Total Business-Type Activities	498,843	423,799	-	-	-	(75,044)	(75,044)
Total Primary Government	\$ 1,227,234	\$ 481,025	\$ 39,497	\$ 96,407	(535,261)	(75,044)	(610,305)
General Revenues:							
Taxes:							
Property Taxes					305,640	-	305,640
Sales Taxes					211,672	-	211,672
State Shared Revenues					6,795	-	6,795
Grants & Contributions not Restricted					4,260	-	4,260
Unrestricted Investment Earnings					4,631	761	5,392
Transfers					761	(761)	-
Total General Revenues and Transfers					533,759	-	533,759
Change in Net Position					(1,502)	(75,044)	(76,546)
Net Position-December 31, 2011					427,836	420,543	848,379
Net Position-December 31, 2012					\$ 426,334	\$ 345,499	\$ 771,833

The accompanying notes are an integral part of this statement.

CITY OF EDMONT

**GOVERNMENTAL FUNDS
BALANCE SHEET - MODIFIED CASH BASIS
DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Liquor, Lodging, and Dining Fund</u>	<u>Revolving Loan Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
101 Cash and Cash Equivalents	\$ 47,074	\$ 15,894	\$ 56,650	\$ 119,618
151 Investments	300,000	-	-	300,000
107.1 Restricted Cash and Cash Equivalents	6,716	-	-	6,716
TOTAL ASSETS	\$ 353,790	\$ 15,894	\$ 56,650	\$ 426,334
FUND BALANCES:				
263 Nonspendable - Cemetery Perpetual Care	\$ 100	\$ -	\$ -	\$ 100
264 Restricted - Library Trust Fund	6,183	-	-	6,183
264 Restricted - Liquor, Lodging, and Dining	-	15,894	-	15,894
264 Restricted - Revolving Loan	-	-	56,650	56,650
267 Unassigned	347,507	-	-	347,507
TOTAL FUND BALANCES	\$ 353,790	\$ 15,894	\$ 56,650	\$ 426,334

The accompanying notes are an integral part of this statement.

CITY OF EDMONTON

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General Fund</u>	<u>Liquor, Lodging, and Dining Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenue:					
<i>310 Taxes:</i>					
311 General Property Taxes	\$ 300,390	\$ -	\$ -	\$ -	\$ 300,390
313 General Sales and Use Taxes	200,860	10,812	-	-	211,672
315 Amusement Taxes	60	-	-	-	60
319 Penalties and Interest on Delinquent Taxes	5,190	-	-	-	5,190
320 Licenses and Permits	7,165	-	-	-	7,165
<i>330 Intergovernmental Revenue:</i>					
331 Federal Grants	96,407	-	-	-	96,407
<i>335 State Shared Revenue:</i>					
335.01 Bank Franchise Tax	1,024	-	-	-	1,024
335.03 Liquor Tax Reversion	5,771	-	-	-	5,771
335.04 Motor Vehicle Licenses (5%)	8,076	-	-	-	8,076
335.08 Local Government Highway and Bridge Fund	27,311	-	-	-	27,311
<i>338 County Shared Revenue:</i>					
338.01 County Road Tax	610	-	-	-	610
338.99 Other	3,500	-	-	-	3,500
<i>340 Charges for Goods and Services:</i>					
341 General Government	22,386	-	8,886	-	31,272
345 Health	142	-	-	-	142
348 Cemetery	5,866	-	-	-	5,866
<i>350 Fines and Forfeits:</i>					
352 Animal Control Fines	248	-	-	-	248
<i>360 Miscellaneous Revenue:</i>					
361 Investment Earnings	2,938	42	1,651	-	4,631
362 Rentals	12,533	-	-	-	12,533
367 Contributions and Donations from Private Sources	4,260	-	-	-	4,260
Total Revenue	704,737	10,854	10,537	-	726,128

CITY OF EDMONTON

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Liquor, Lodging, and Dining Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Expenditures:					
<i>410 General Government:</i>					
411 Legislative	11,857	-	-	-	11,857
412 Executive	9,722	-	-	-	9,722
413 Elections	448	-	-	-	448
414 Financial Administration	76,022	-	-	-	76,022
415 Attorney	20,656	-	-	-	20,656
<i>420 Public Safety:</i>					
421 Police	118,783	-	-	-	118,783
422 Fire	34,773	-	-	-	34,773
<i>430 Public Works:</i>					
431 Highways and Streets	209,191	-	-	-	209,191
435 Airport	13,330	-	-	-	13,330
437 Cemeteries	6,096	-	-	-	6,096
439 Transportation	1,000	-	-	-	1,000
<i>430 Health and Welfare:</i>					
441 Animal Control	5,050	-	-	-	5,050
442 Meal Program	1,000	-	-	-	1,000
447 Hospitals, Nursing Homes	81,128	-	-	-	81,128
<i>450 Culture and Recreation:</i>					
451 Recreation	22,279	-	-	-	22,279
452 Parks	10,711	-	-	-	10,711
455 Libraries	78,291	-	-	-	78,291
458 Museums	2,500	-	-	-	2,500
<i>460 Conservation and Development:</i>					
463 Urban Redevelopment and Housing	500	-	-	-	500
465 Economic Development and Assistance	-	18,000	5,000	-	23,000
<i>470 Debt Service:</i>					
471 Debt Service (Principal)	2,001	-	-	-	2,001
442 Interest	53	-	-	-	53
Total Expenditures	705,391	18,000	5,000	-	728,391
Other Financing Sources (Uses):					
391.01 Transfers In	4,732	-	-	-	4,732
511 Transfers Out	-	(42)	-	(3,929)	(3,971)
Total Other Financing Sources (Uses)	4,732	(42)	-	(3,929)	761
Net Change in Fund Balances	4,078	(7,188)	5,537	(3,929)	(1,502)
Fund Balances - December 31, 2011	349,712	23,082	51,113	3,929	427,836
Fund Balances - December 31, 2012	\$ 353,790	\$ 15,894	\$ 56,650	\$ -	\$ 426,334

The accompanying notes are an integral part of this statement.

CITY OF EDMONT

PROPRIETARY FUND

BALANCE SHEET - MODIFIED CASH BASIS

DECEMBER 31, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
ASSETS:				
Current Assets:				
101 Cash and Cash Equivalents	\$ 228,974	\$ 47,941	\$ 68,584	\$ 345,499
TOTAL ASSETS	\$ 228,974	\$ 47,941	\$ 68,584	\$ 345,499
NET POSITION:				
253.90 Unrestricted Net Position	228,974	47,941	68,584	345,499
TOTAL NET POSITION	\$ 228,974	\$ 47,941	\$ 68,584	\$ 345,499

The accompanying notes are an integral part of this statement.

CITY OF EDMONTON

**PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
Operating Revenue:				
380 Charges for Goods and Services	\$ 216,278	\$ 110,415	\$ 97,106	\$ 423,799
Total Operating Revenue	216,278	110,415	97,106	423,799
Operating Expenses:				
410 Personal Services	72,194	28,777	18,240	119,211
420 Other Current Expense	90,639	90,255	71,341	252,235
Total Operating Expenses	162,833	119,032	89,581	371,446
Operating Income (Loss)	53,445	(8,617)	7,525	52,353
Nonoperating Revenue (Expense):				
361 Investment Earnings	427	219	115	761
471 Debt Service (Principal)	(48,029)	(75,965)	-	(123,994)
442 Interest Expense	(1,540)	(1,863)	-	(3,403)
Total Nonoperating Revenue (Expense)	(49,142)	(77,609)	115	(126,636)
Income (Loss) Before Transfers	4,303	(86,226)	7,640	(74,283)
Transfers				
511 Transfers Out	(427)	(219)	(115)	(761)
Change in Net Position	3,876	(86,445)	7,525	(75,044)
Net Position - December 31, 2011	225,098	134,386	61,059	420,543
Net Position - December 31, 2012	\$ 228,974	\$ 47,941	\$ 68,584	\$ 345,499

The accompanying notes are an integral part of this statement.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of the City of Edgemont (the City) consists of the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis display information about the reporting entity as a whole. These statements include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2012

1. Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued):

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Liquor, Lodging, and Dining Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Revolving Loan Fund - to account for proceeds received from the State of South Dakota for the purpose of making loans to new and existing businesses in the City for the purpose of facilitating economic growth and development. The City had five notes receivable with balances at December 31, 2012 that require monthly payments ranging from \$50 to \$100 over a term of five years. These notes receivable are not recorded on the accompanying financial statements in accordance with the modified cash basis of accounting. This is a major fund.

The remaining Special Revenue Fund, the RE&CD, is not considered a major fund and was closed to the General Fund during the year ended December 31, 2012.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund - financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection of garbage. This is a major fund.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2012

1. Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

In the government-wide Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

All financial statements are presented using a modified cash basis of accounting, which is a basis of accounting other than GAAP. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implement by the City in these financial statements is recording long-term investments (those with maturities greater than three months from the date of acquisition) acquired with cash assets at cost.

Under GAAP, transactions are recorded in the accounts when revenue is earned and liabilities are incurred. As a result of reporting on the modified cash basis of accounting, certain assets (i.e. accounts receivable and capital assets) and their related revenues (such as revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, accrued expenses and liabilities, and capital asset related debt) are not recorded in these financial statements.

If the City applied GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and investments with a term to maturity at the date of acquisition of three months or less.

e. Capital Assets:

Under the modified cash basis of accounting, the City’s capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash, in the government-wide financial statements, the governmental fund financial statements, and the proprietary fund financial statements.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2012

1. Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of all funds are not reported as liabilities in these modified cash basis financial statements.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis, revenues and expenses are classified as operating revenues and expenses unless the transactions relate to capital and related financing activities, noncapital financing activities, or investing activities.

i. Equity Classification Policies and Procedures:

Government-wide Statements:

Equity is classified as net position and is displayed in two components under the cash basis:

1. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net position that does not meet the definition of restricted.

Fund Financial Statements:

Proprietary fund equity is classified the same as in the government-wide financial statements. The City uses restricted net position first when both restricted and unrestricted net position balances are available.

The City classifies governmental fund balance as follows:

1. Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2012

1. Summary of Significant Accounting Policies (Concluded)

i. Equity Classification Policies and Procedures (Continued):

Fund Financial Statements (Continued):

2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.
5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The City does not have a formal minimum fund balance policy.

The City uses restricted amounts first when both restricted and unrestricted fund balances are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

2. Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

CITY OF EDMONT

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2012

2. Deposits and Investments (Continued)

The City had only checking accounts, savings accounts, and a certificate of deposit at December 31, 2012.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Interest Rate Risk:

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the General Fund, including investment income generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18, except for the private-purpose trust fund(s) which retains its investment income. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

3. Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF EDMONT

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2012

4. Long-Term Debt

Changes in long-term debt for the year ending December 31, 2012 are as follow:

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012	Due Within One Year
Primary Government:					
First Interstate Bank	\$ 43,614	\$ -	\$ 43,614	\$ -	\$ -
National Rural Water Association	71,511	-	71,511	-	-
Northland Capital - Trash Pump	-	24,430	5,558	18,872	4,590
GE - Skid Steer Loader	-	23,370	5,312	18,058	4,439
Total Primary Government	\$ 115,125	\$ 47,800	\$ 125,995	\$ 36,930	\$ 9,029

Long-term debt at December 31, 2012 is comprised of the following:

Lease of skid steer due in monthly installments of \$447.47, including interest at 5.8 percent through October 2017. Paid from General, Water and Sewer Funds.	\$ 18,058
Lease of trash pump due in monthly installments of \$467.59, including interest at 5.5 percent through September 2015. Paid from Water and Sewer Funds.	18,872
	\$ 36,930

The annual requirements to amortize all debt outstanding as of December 31, 2012, are as follows:

	Principal	Interest
2013	\$ 9,029	\$ 1,951
2014	9,647	1,334
2015	10,208	772
2016	8,046	191
Total	\$ 36,930	\$ 4,248

5. Retirement Plan

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011, and 2010 were \$12,080, \$12,187, and \$14,325, respectively, equal to the required contributions each year.

CITY OF EDMONTON

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONTINUED) DECEMBER 31, 2012

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of property; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2012, the City managed its risks as follows:

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy, and the premiums are based on their exposure or type of coverage to the pool to provide coverage for general liability, officials' liability, automobile liability and damage, property damage and boiler and machinery coverage.

The agreement with the SDPAA provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund.

The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year and Thereafter	100%

As of December 31, 2012, the City has a vested balance in the cumulative reserve fund of **\$29,539**, which is not recorded in the cash basis financial statements of the City.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF EDMONT

**NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS (CONCLUDED)
DECEMBER 31, 2012**

6. Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

7. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, were as follows:

	Transfer In	Transfer Out
General Fund	\$ 4,732	\$ -
Liquor, Lodging, & Dining Fund	-	42
Other Funds	-	3,929
Water Fund	-	427
Sewer Fund	-	219
Solid Waste Fund	-	115
Total	\$ 4,732	\$ 4,732

Transfers were made during the year to transfer interest income into the General Fund and to close the RE&CD fund to the General Fund.

8. Operating Leases

The City has a lease for a copier that requires a monthly payment of \$280 through December 1, 2016.

9. Subsequent Events

The City entered into a capital lease subsequent to year end for the purchase of a bobcat. The principal of the capital lease is \$45,792 and the lease requires monthly payments of \$875 through April 2018.

OTHER REPORTS



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council
City of Edgemont
Edgemont, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Edgemont (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as 2012-1 through 2012-4 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as 2012-05 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as 2012-04 and 2012-03.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 17, 2014

CITY OF EDMONTON

SCHEDULE OF FINDINGS DECEMBER 31, 2012

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The City still has a limited number of employees, so finding 2011-2 will be repeated as 2012-03.

The City reports on a modified cash basis of accounting and all revolving loan activity is recorded in the accompanying financial statements, thus finding 2011-1 will not be repeated.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

Finding No. 2012-01: Financial Statement Preparation

Cause and Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the related footnote disclosures. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in a City of your size.

Criteria and Effect: This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected by your City's internal control system.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The City accepts the risk associated with this condition.

Finding No. 2012-02: Audit Adjustments

Cause and Condition: During the audit process we proposed several audit adjustments, including reclassifying expenditures to proper functions, reclassifying revenue to proper utility funds, adjusting fund cash balances, rolling forward equity and eliminating duplicated revenue and expenditure activity.

Criteria and Effect: This control deficiency resulted in a material misstatement to the financial statements that was not prevented or detected by your City's internal control system.

Recommendation: Due diligence should be used in recording City activity to prevent duplicating activity and to ensure transactions are recorded in the proper funds and accounts. As a part of the bank reconciliation process, the City needs to ensure that cash by fund matches the total bank accounts of the City.

Response/Corrective Action Plan: The City is working to change software to allow for more accurate recording of transactions.

CITY OF EDMONTON

SCHEDULE OF FINDINGS (CONTINUED) DECEMBER 31, 2012

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (Continued)

Finding No. 2012-03: Segregation of Duties and Internal Controls

Cause and Condition: Proper segregation of duties assumes adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. The City has a general lack of segregation of duties, specifically:

1. The Assistant Finance Officer has the ability to accept utility and other payments, prepares utility billings, posts utility payments, and makes adjustments to customer accounts.
2. The finance office prepares checks, receives signed checks, handles vendor questions, has general ledger access prepares the bank reconciliation, and no one reviews the bank reconciliation.
3. We noted that the bank reconciliation in the software did not match to the general ledger due to a missing outstanding check.
4. The finance officer posts adjustments, which are not reviewed by anyone. The Council receives only a claims report during Council meetings.
5. Budget documents were found for 2012; however, no council minutes indicated a formal budget was adopted.
6. The council members who sign City vouchers and check signers were not provided invoices or other supporting documentation of the expenditure.
7. The City has no formal process to track internal and external restrictions. The City maintains a revolving loan fund to account for funds restricted by the State to provide economic development loans; however, no documentation of this funding restriction could be provided. Finally, the city charges a repair and replacement fee to utility customers to cover costs of repair of utility infrastructure, but there is no tracking of the fees collected and amounts spent on repairs.

Criteria and Effect: The City is susceptible to misappropriation or error.

Recommendations:

1. The Finance Officer, mayor or city council member should review a utility adjustment report and monthly aging report.
2. The mayor or city council member should get the bank statement unopened and review such for propriety along with the monthly bank reconciliation. The office assistant should prepare checks for mailing.
3. The bank reconciliation should be prepared timely and differences identified adjusted. Future issues should be corrected at a date after the previous bank reconciliation or noted on past reconciliations.
4. The mayor or council member should review general ledger adjustments. The city council member should be receiving Banyon-generated budget to actual revenue and expenditure reports at least monthly.
5. The City should annually adopt a budget in accordance with state statute.
6. Invoices or other supporting documentation should accompany all vouchers and checks, so that signers can review it. The reviewers should also evaluate the accuracy and consistency of the expenditure account coding.
7. The City should obtain and maintain documentation to support its externally and internally restricted balances. The activity related to these restrictions should also be tracked.

Response/Corrective Action Plan:

1. Utility adjustment reports are now being reviewed by the Finance Committee monthly.
2. The Mayor will review unopened bank statements and then the Finance Committee will review them at the same time as the claims.
3. Finance Officer will prepare bank reconciliations in a more timely manner.
4. Banyon is just beginning to be implemented and the reports will be generated monthly.
5. The City has already adopted this practice.
6. Claim forms accompany all invoices that are reviewed by the Finance Committee.
7. Finance Officer is working with Banyon Systems to get these accounts set up so the balances can be tracked more easily.

CITY OF EDMONT

SCHEDULE OF FINDINGS (CONTINUED) DECEMBER 31, 2012

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (Concluded)

Finding No. 2012-04: Testing Errors and Lack of Supporting Documentation

Cause and Condition: During our audit process, we select revenue and expenditure transactions to test by agreeing such to supporting documentation. The results of that testing identified the following issues:

1. Utility Rates: The rates charged to customers for utilities (water, sewer and garbage) did not match an approved City ordinance. In some instances, it was unknown what rate certain customers should be charged based on existing ordinance.
2. Payroll Testing:
 - a. We noted 2 instances in which the finance officer worked under 80 hours (.5 to 1 hour), but she was paid her full salary.
 - b. We noted one instance in which the finance officer's time card was not signed by the mayor.
 - c. We noted that one employee was overpaid \$16.50 due to a math error on her time card.
 - d. We noted no approved pay rate for one employee.
 - e. We noted 2 employee's hourly pay rate did not match the approved amount in the council minutes. No supporting documentation could be located to indicate a subsequent change to the approved rate.
3. Disbursement (Nonpayroll) Testing:
 - a. We noted 2 checks of 40 tested that did not have two signatures on the check in accordance with State Law.
 - b. We noted 6 disbursements of 40 selected only had a voucher to support the expenditure. One of these included a reimbursement for the medical/pharmaceutical allowance that was not supported by related invoices.
 - c. We noted 1 disbursement of 40 selected only had the statement to support the expenditures.
 - d. We noted 3 transactions of 40 selected were not approved in the claim listing in the City Council minutes.
 - e. We noted that all check activity for the library bank account for the entire year was accounted for by posting one "check" and one deposit into QuickBooks.

Criteria and Effect: Complete utility ordinances are necessary to fairly and properly charge customers for services. Adequate supporting documentation ensures that all payments are made for valid City expenditures.

Recommendations:

1. Utility Rates: The City should update its ordinances to cover all customers and ensure that each customer is charged such.
2. Payroll Testing: Time cards should be carefully reviewed for accuracy. Compensated leave time should be properly tracked by the finance officer and reviewed for propriety by the mayor or City Council. Employees should be paid approved rates, which should be part of the review process when check signers sign payroll checks. In accordance with state law, a complete listing of all employee pay rates shall be published annually and when a new employee is added or whose salary has been increased.
3. Disbursement (Nonpayroll) Testing: Proper supporting documentation should be maintained for all expenditures including detailed invoices. All claims should be approved prior to payment or at the following City Council meeting if prior approval is not possible. Library activity should be accounted for monthly.

Response/Corrective Action Plan:

1. Currently the Ordinance is being corrected to ensure that each customer is charged properly.
2. Time cards are being reviewed by supervisors and then the Finance Officer. The Library Board has been informed of our concerns and we are working with them to implement the same due diligence. Guidelines will be presented to the Library Board in writing.
3. Claims are reviewed and initialed by all members of the Finance Committee. If one of the members is absent the Mayor also signs off on the claims. Again, the Library Board has also been informed of our concerns about "checks and balances."

CITY OF EDMONTON

**SCHEDULE OF FINDINGS (CONCLUDED)
DECEMBER 31, 2012**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies

Finding No. 2012-05: Controls over Information Technology

Cause and Condition: The City performs backups of financial data only on a monthly basis, the backups are maintained on-site, and the backups have never been tested.

Criteria and Effect: There is a risk that financial data could be lost and need to be re-entered because backups are stored on-site and are not tested.

Recommendation: We recommend all backups be completed at least weekly, be maintained off-site, and be tested on a regular basis to ensure adequate backups are properly functioning.

Response/Corrective Action Plan:

The Finance Officer performs backups weekly and are maintained off site. The backups are being tested quarterly. The backups for the Utility Billing are backed up nightly and maintained both on and off site.